

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAVES COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Graves County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$13,691 from the prior year, resulting in excess fees of \$6,421 as of December 31, 2009. The Sheriff still owes excess fees of \$3,839 as of the audit date. Revenues increased by \$55,138 from the prior year and expenditures increased by \$68,829.

Debt Obligations:

Total debt principal as of December 31, 2009, was \$58,741. Future collections of \$60,338 are needed over the next year to pay all debt principal and interest.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$3,839 In Excess Fees To The Fiscal Court

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Graves County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2010 on our consideration of the Graves County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$3,839 In Excess Fees To The Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 19, 2010

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants		\$	55,007
State Grants			3,420
State - Kentucky Law Enforcement Foundation Program Fund			32,791
State Fees For Services:			
Sheriff Security Service - HB 452	41,973		
Fee Claims	41,744		
Fugitive Returns	12,056		
Telecommunications Tax	2,593		
Cabinet for Health and Family Services	<u>21,933</u>		120,299
Circuit Court Clerk:			
Fines and Fees Collected			16,260
Fiscal Court			93,523
County Clerk - Delinquent Taxes			3,520
Commission On Taxes Collected			386,670
Fees Collected For Services:			
Auto Inspections	18,489		
Accident/Police Reports	3,829		
Serving Papers	52,600		
CCDW	7,220		
Sheriff's Fees	<u>53,097</u>		135,235
Other:			
Extra Security	1,875		
Jury Meals	119		
Restitution	190		
Insurance	35,206		
Miscellaneous	<u>1,792</u>		39,182
Interest Earned			1,991

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	\$	190,000	
Bank Note		<u>22,000</u>	<u>\$ 212,000</u>

Total Revenues			1,099,898
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	406,140
Part-Time Salaries		93,798
Court Security Salaries		19,203

Employee Benefits-

Employer's Share Social Security		42,876
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Contracted Services-

Advertising		257
Contracted Labor		21,479

Materials and Supplies-

Office Materials and Supplies		9,561
Uniforms		1,651

Auto Expense-

Gasoline		44,908
Maintenance and Repairs		28,630

Other Charges-

Conventions and Travel		7,037
Postage		7,132
Transports		10,217
Miscellaneous		443
Jury Meals		71
Vehicle Registration		57
K-9 Expense		481

Capital Outlay:

Vehicles	<u>39,361</u>	733,302
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The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	190,000	
Short-Term Note		22,000	
Long-Term Note		55,671	
Interest		<u>4,505</u>	\$ <u>272,176</u>

Total Expenditures \$ 1,005,478

Less: Disallowed Expenditures

No Supporting Documentation (201)

Total Allowable Expenditures 1,005,277

Net Revenues 94,621

Less: Statutory Maximum 84,672

Excess Fees 9,949

Less: Training Incentive Benefit 3,528

Excess Fees Due County for 2009 6,421

Payments to Fiscal Court - February 2, 2010 2,582

Balance Due Fiscal Court at Completion of Audit \$ 3,839

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Non hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Graves County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Graves County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2009
 (Continued)

Note 4. Note Payable

The Office of the Sheriff is liable for a secured note payable to First National Bank in the amount of \$58,741. The purpose of the note was to refinance a bank note from the 2006 calendar year, which was used to purchase new police vehicles in 2006. The note matures in three years and the interest rate is 5 percent. The Graves County Sheriff's Office was in compliance with the terms of the agreement as of December 31, 2009. Future principal and interest payments are as follows:

Year Ending	Scheduled Principal	Scheduled Interest
2010	58,741	1,597
	<u>\$ 58,741</u>	<u>\$ 1,597</u>

Note 5. Payroll Withholding Fund

The Graves County Sheriff maintains a Community Activities Fund established January 5, 2006. Receipts result from payroll withholdings from employees. The funds are spent for payroll taxes, Christmas Club, United Way, flowers, scholarship, and miscellaneous items. The beginning balance of this account was \$2,696. During the year, receipts were \$146,996 and expenditures were \$147,404 for the calendar year 2009. The balance at December 31, 2009 of the Community Activity Fund was \$2,287.

Note 6. Special Fund

The Graves County Sheriff's Office maintains a separate account for donations and other miscellaneous receipts. The beginning balance of this account was \$14,346. During calendar year 2009 receipts were \$19,820 and expenditures were \$18,183 leaving an ending balance of \$15,983 as of December 31, 2009.

Note 7. Forfeiture Fund

The Graves County Sheriff maintains a Forfeiture Fund established by an order of the Circuit Clerk in 2006. The account is to be funded by receipts from forfeiture of money and property, court ordered payments from individuals, and interest received on deposits of forfeiture funds. The funds are to be used for supplies, equipment, vehicles, and drug awareness programs. The beginning balance of the account was \$73,525. During the calendar year 2009, receipts were \$53,598 and expenditures were \$62,807. The balance of the Forfeiture Fund at December 31, 2009 was \$64,316.

Note 8. Federal Grants

During calendar year 2009, the Sheriff's office received funds from the federal grants entitled:

Federal Emergency Management Assistance	\$35,007
Pennyrile Narcotics Program	\$20,000

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 9. State Grants

During calendar year 2009, the Sheriff's office received funds from the state grants entitled:

Highway Safety Grant	\$3,420
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Note 10. Kentucky Law Enforcement Foundation Program Fund

The Graves County Sheriff's office participates in the Kentucky Law Enforcement Foundation Program Fund (KLEFPF). This program, administrated by the Kentucky Justice Cabinet, is designed to provide adequate training to the Sheriff's deputies. During the year, the Graves County Sheriff's office received \$32,791 from this program.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Graves County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated July 19, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as:

- The Sheriff Should Remit \$3,839 In Excess Fees To The Fiscal Court

The Graves County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 19, 2010

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit \$3,839 In Excess Fees To The Fiscal Court

The Graves County Sheriff's Office currently owes the Fiscal Court \$3,839 in excess fees for calendar year 2009. These excess fees are the result of a disallowed expenditure of \$201 for the lack of supporting documentation for a reimbursement for office supplies and one extra payment of the Sheriff's salary due to timing of payroll. KRS 134.310(6) states "the sheriff shall pay to fiscal court any fees, commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation for deputies and assistants". We recommend the Sheriff comply with KRS 134.310(6) by paying Fiscal Court all excess fees currently due.

Sheriff's Response: This money is already being repaid. It stemmed from a paycheck issued and dated four days early and for a lost receipt for \$201.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Graves County Sheriff's office lacks adequate segregation of duties. Due to a limited staff size, the same deputy preparing the daily checkout sheet also prepares the daily deposit, takes it to the bank, and posts receipts to the receipts ledger. That deputy also posts expenditures to the disbursements ledger, prepares and has the ability to sign checks and performs the monthly bank reconciliation.

Segregation of duties over daily checkout procedures, deposit preparation, receipts posting, the preparation of checks, and disbursement posting is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. If it is not possible to segregate all functions of the accounting process the implementation of compensating controls will help limit the severity of possible asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the Sheriff separate the duties of preparing the daily deposit from the preparation of the daily checkout, with the deputy preparing the daily checkout sheet accounting for the numerical sequence of issued receipts. Also, the preparation of disbursement checks should be separated from the posting of disbursements to the disbursements ledger and bank reconciliation. If these duties cannot be segregated due to a limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by dating and initialing the bank deposit and daily deposit.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff could document this by dating and initialing the quarterly financial report.
- The Sheriff compares invoices to payments. The Sheriff documents this by dating and initialing the invoices. The Sheriff should implement a dollar amount threshold for expenditures, any expenditure over the threshold should be reviewed, compare invoices to payments, and document this in the same manner.
- The Sheriff should, at least quarterly, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by dating and initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We will continue to attempt to correct this concern.

